Mayor’s Report

Honourable Speaker;
Deputy Mayor;
Members of the Mayoral Committee;
Councillors;
Municipal Manager and officials;
Distinguished guests;
Ladies and gentlemen.

Today I am presenting to you the medium term revenue and expenditure framework in accordance with the powers vested in me in terms of section 16(2) of the Municipal Finance Management Act.

I should emphasize the fact that the budget was prepared under a tremendous amount of pressure due to the difficulties we have been experiencing the past couple of months. An extensive consultation process will be followed during April and May 2012 in order to solicit the views of the local community, National and Provincial Treasury on the draft budget. Councillors were also given the opportunity to provide feedback and to give input during the consultation process.

Our municipality is currently facing a cash flow crisis which requires us to exercise best practices in terms of carefully managing our finances and other resources to overcome the current crisis and to steer the ship in the right direction. All of us as Councillors, employees and citizens need to join hands in achieving financial viability and financial sustainability.

Poverty and unemployment remains our biggest challenges, putting pressure on our revenue streams as is reflected in our low collection rates. We therefore support the call made by the President in his state of the nation address to do more to grow the economy to get rid of the problem of unemployment, poverty and inequality Furthermore, we must align our programmes with the job creation imperative.

Given the low tax base of our municipality, it has become imperative that effective management of our resources should be number one on the service delivery agenda. We must commit ourselves to doing things differently and to do more with the available resources. This requires us to be effective and efficient in planning and executing our programmes to ensure better value for taxpayers’ money. It is against this backdrop that I urge both Councilors and the administration to constantly innovate and react differently to respond to the challenges we are faced with.

The application of sound financial management practices is a prerequisite for financial viability and it is expected of all of us to implement our policies diligently and to seek new innovative ways of enhancing revenue. The fact that we are dependent on grant funds for capital projects is a limitation on our ability to satisfy the needs of every single citizen in the municipal area. Our budget is therefore focused on infrastructure and particularly roads and stormwater, and the provision of water and electricity.

A capital budget amounting to R40,7 million is proposed for 2012/13 (R50,7 million and R32.1 million for the outer years). The capital budget is primarily funded from national grant funds.
The following represents a summary of the major capital projects to be undertaken during 2012/13:

- An amount of R4,7 million will be spent on the exploration of aquifers, new bulk water supply and other water projects;

- R12 million is allocated to the 132kV substation;
- R16,3 million will be spent on rehabilitation of roads and storm water drainage;
- The municipality has also received a R5,9 million allocation from the Neighbourhood Development Partnership Grant;

We intend to use labour intensive methods to carry out infrastructure projects and will continue to support the graduate internship programme to prepare young graduates for their professional career. We will also continue our efforts to explore the benefits offered by the Expanded Public Works Programme. As a nodal municipality, we will continue our efforts of accessing the jobs fund and to partner with National Government to create more jobs. The municipality has also made a 30% contribution to the food for waste programme and provision was also made for the operational expenditure relating to the Youth Centre that will be built in Kwa Mandlenkosi. A further R1 million from the EPWP conditional grant will be utilized for job creation projects in the engineering and community services departments.

Speaker, I wish to emphasize the fact that it was extremely difficult to balance the budget because the challenges and constraints are many, yet we must speed up service delivery and improve on our performance as a municipality.

Despite all the challenges that we are faced with, we remain confident and hopeful that soon the tide will turn and that together we will do more to ensure that all our people gets the quality of services they deserve.

Resolutions

It is recommended that:

1. Council resolves that the annual budget of the municipality for the financial year 2012/13; and indicative for the two projected outer years 2013/14 and 2014/15 be approved as set out in the following schedules:
   1.1 Operating revenue and expenditure by standard classification reflected in table A2;
   1.2 Operating revenue and expenditure by municipal vote reflected in table A3;
   1.3 Operating revenue by source and expenditure by type reflected in table A4;
   1.4 Capital expenditure by vote, standard classification and funding reflected in table A5;

2. Council of the Beaufort West Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012:
   2.1 The tariffs for property rates – as set out in Annexure A.

3. Council resolves that tariffs and charges as reflected in the tariff book be increased as follows for the 2012/13 financial year:
   3.1 Water - 35%;
   3.2 Sanitation - 7%;
   3.3 Refuse Removal - 7%;
   3.4 Sundry Tariffs (excluding cemeteries) - 7%;
   3.5 Electricity - 11.03%.

4. Council resolves that the rates in respect of the agricultural properties in the former Murraysburg DMA be aligned with the tariffs applicable to the other agricultural properties under the jurisdiction of the Beaufort West Municipality;

5. That a new tariff for issuing a rates clearance certificate be introduced with effect from 1 July 2012. The tariff will be R80,00 per rates clearance certificate in duplicate and that an additional R40,00 per copy be charged for extra copies or re-issuance;

6. Council resolves that, given the fact that no provision was made for new posts or to fill vacancies, the organogram in the Engineering Department be revisited to ensure basic service delivery in the water and sewerage sections;

7. Council resolves to approve the revised budget related policies annexed hereto.

EXECUTIVE MAYOR
ALDERMAN T. PRINCE

Executive Summary

Budget Assumptions

The following assumptions were made when the budget was prepared:

- Employee costs will increase by 5% calculated on TASK job evaluations and grading system ;
- Electricity bulk purchases increase by 16%;
- CPIX for 2012/13, 2013/14 and 2014/15 are 5.9%, 5,3% and 4.9% respectively;
- Although inflation expectations as projected by National Treasury are 5,9%, most expenditure items were increased by more than that due to expected increases in input costs;
- Provision for doubtful debts is 2.4% of total rates and service charges; and
- Minimal growth in water and electricity revenue due to increased consumption (new low cost houses).

National treasury Guidelines

Growth in consumption expenditure should be carefully managed and greater transparency to supply chain management processes should be introduced. When revising rates, tariffs and other charges, the municipality must take into account labour and other input costs, the need to ensure financial sustainability, local economic conditions and the affordability of services taking into consideration the municipality's indigent policy.

Municipalities must also ensure that their water tariffs are cost reflective and that tariffs are structured in such a way to protect basic levels of service. Tariffs should also be designed to encourage efficient and sustainable consumption (e.g. through increasing block tariffs). Municipalities should also aim to have appropriately structured cost- reflective solid waste tariffs taking into account that it is good practice to maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites.

Municipalities are urged to give priority to the following:

- Ensuring that drinking water and waste water management meets the required quality standards at all times;
- Protecting the poor;
- Supporting meaningful local economic development initiatives that foster micro and small business opportunities and job creation;

- Ensure that service providers use labour intensive approaches;
- Securing the health of our asset base by increased spending on especially the income generating assets; and
- Expediting spending on capital projects that are funded by conditional grants.

Special attention should be paid to control expenditure on non essential activities and nice-to-have items. We should also ensure that we receive value for money when appointing consultants. Particular attention should also be paid to managing all revenue and cash streams effectively, especially debtors.

Budget Summary

Revenue is projected to decrease by 1,77% from R211,7 million in 2011/12 to R207,9 million in 2012/13. The major revenue items are as follows:

	2011/12	2012/13	% Total Revenue	Growth 2011/12-2012/13	2013/14	2014/15
Property rates	20,138,780	20,556,875	9.88%	2.08%	21,584,900	22,664,100
Service charges	79,723,180	80,139,260	38.53%	0.52%	87,928,800	92,332,700
Operational Grants	50,377,000	50,770,500	24.41%	0.78%	46,838,400	48,898,400
Capital Grants	47,942,400	40,637,000	19.54%	-15.24%	29,541,700	43,320,100
Other own revenue	13,550,387	15,880,377	7.64%	17.20%	16,675,900	17,510,200
	211,731,747	207,984,012	100.00%	-1.77%	202,569,700	224,725,500

Revenue from service charges represents the bulk of the revenue at 38,5% followed by operational grants of 24,4%, capital grants of 19,5% and rates of 9,9%. The projected revenue numbers are based on the current year full year forecast and adjusted for tariff increases. The major reason for the reduction in revenue from 2011/12 to 2012/13 is a reduction in the Capital Grants.

The operational expenditure has increased by 2,3% from R173,2 million in 2011/12 to R177,2 million in 2012/13. The major expenditure items are as follows:

	2011/12	2012/13	% Total Expend.	Growth 2011/12-2012/13	2013/14	2014/15
Employee related costs	55 713 656	61 059 225	34.5%	9.6%	64 113 000	67 320 900
Councillor Remuneration	3 798 365	3 841 950	2.2%	1.1%	4 034 200	4 236 000
Depreciation	11 507 080	12 346 988	7.0%	7.3%	12 964 300	13 613 000
Finance charges	1 967 505	1 881 095	1.1%	-4.4%	1 975 300	2 074 200
Bulk purchases	38 531 000	46 348 500	26.2%	20.3%	48 665 900	51 099 300
Repairs & Maintenance	14 762 960	14 952 278	8.4%	1.3%	15 702 200	16 488 200
Other expenditure	46 927 675	36 802 668	20.8%	-21.6%	35 952 900	57 473 000
	173 208 241	177 232 704	100.0%	2.3%	183 407 800	212 304 600

Employee costs and bulk purchases represents the bulk of the expenditure at 34,5% and 26,2% respectively. Other expenditure comprises among others general expenses such as telephone,

audit costs, as well as expenditure on low cost housing (top structures) and electrification of Central Karoo.

The budget can be summarized as follows:

Operating revenue	R 207 984
Less: Operating Expenditure	R 177 233
Surplus	R 30 751
Less: Capital Grants	R 40 637
Add: Depreciation	R 9 886
Surplus	R 0

The impact of tariff increases is depicted in Table SA14. It should be noted that water and refuse removal is projected to realize a deficit of R4 million and R1,2 million respectively.

Key Financial Indicators

Financial Indicators	Basis of Calculation	Audited Actual 2009/10	Audited Actual 2010/11
Borrowing Management:			
Borrowing to asset ratio	Total long term borrowing / Total assets	5,2%	6,2%
Capital charges to operating expenditure	Interest and Principal Paid / Operating Expenditure	3,5%	3,7%
Safety of Capital:			
Debt to equity	Loans, Accounts payable, Overdraft / Funds & Reserves	51,2%	33%
Gearing	Funds & Reserves / Long Term Borrowing	170,3	311,5
Liquidity:			
Current Ratio	Current assets / Current Liabilities	1,4:1	1,01:1
Liquidity Ratio	Monetary assets/Current Liabilities	0.7:1	0.4:1
Revenue Management			
Debtors collection rate	Receipts / Billings	96,6%	91,2%
Outstanding debtors to revenue	Outstanding debtors / Revenue	21,8%	23,6%
Other Indicators			

Electricity distribution losses	Total units purchased less total units sold / Total units purchased	13,0%	15,6%
Water distribution losses	Total units purchased less total units sold / Total units purchased	32%	23,5%
Staff cost to total operating revenue	Employee related cost / Total Operating Own Revenue	28,3%	35,6%

Annexure A

Tariffs for Rates with effect from 1 July 2012

Beaufort West, Merwevile, Nelspoort and Murraysburg

Residential	R0.013286
Agricultural	R0.003321
Commercial	R0.019326

Rebates in respect of residential and agricultural properties will be granted in accordance with the municipality's rates policy.

A rates rebate shall be granted to owners of properties who meet the following criteria:

- The property must be occupied by the owner;
- The rebate will be available to one property only in cases where more than one property is owned by the applicants;
- The owner must be older than 60 years;
- The rebate shall be granted on properties where the municipal valuation is less than R450,000.

The rebate referred to in the previous paragraph shall be dependent on the monthly household income as follows:

Less than R1,200 per month	- 30%
R1,201 to R1,500	- 20%
R1,501 to R2,320	- 10%

The first R19,000 of all residential properties shall not be subject to rates.